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## USAID Regional Trade Program for CAFTA-DR



# USAID REGIONAL TRADE PROGRAM FOR CAFTA-DR

Final Report

**AUGUST 2010**

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**On August 5, 2004, the United States signed the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic.**

# USAID REGIONAL TRADE PROGRAM FOR CAFTA-DR Final Report

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The signing of the **Central America and Dominican Republic Free Trade Agreement (CAFTA-DR)** is one of the most visionary yet challenging decisions that the region has taken.

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Trade facilitation is one of the many achievements of the **USAID-funded CRT Program** in the **CAFTA-DR** region.

# ACRONYMS

<b>ADOEXPO:</b>	<i>Asociación Dominicana de Exportadores</i> (Dominican Association of Exporters)
<b>AMCHAM:</b>	American Chamber of Commerce
<b>CAFTA-DR:</b>	Dominican Republic, Central America, United States Free Trade Agreement
<b>UNCITRAL:</b>	United Nations Commission on International Trade Law
<b>COHEP:</b>	<i>Consejo Hondureño de la Empresa Privada</i> (Honduran Private Enterprise Council)
<b>CRT:</b>	USAID CAFTA-DR Regional Trade Program
<b>DACE:</b>	<i>Dirección de Administración del Comercio Exterior de Guatemala</i> (Guatemalan Office of Foreign Trade Administration)
<b>DEI-DGA:</b>	<i>Dirección Ejecutiva de Ingresos de la Dirección General de Aduanas de Honduras</i> (Executive Revenues Office of the General Customs Administration)
<b>DGA-DR:</b>	<i>Dirección General de Aduanas de República Dominicana</i> (General Customs Administration)
<b>DGA-ES:</b>	<i>Dirección General de Aduanas de El Salvador</i> (General Direction of Customs of El Salvador)
<b>DICOEX:</b>	<i>Dirección de Comercio Exterior de República Dominicana</i> (Office of Foreign Trade)
<b>DNO:</b>	<i>Departamento de Normas de Origen de República Dominicana</i> (Department of Rules of Origin)
<b>FTA:</b>	Free Trade Agreement
<b>GEDOEL:</b>	<i>Generador de Documentos Electrónicos</i> (Electronic Document Generator)
<b>IAREDS:</b>	Inter-American Rules on Electronic Documents and Signatures
<b>ISO:</b>	International Standards Organization
<b>IT:</b>	Information technology
<b>PO:</b>	Procedures of origin
<b>ROO:</b>	Rules of origin
<b>RVC:</b>	Regional value content
<b>SAQBE:</b>	Customs Information System used in Guatemala
<b>SARAH:</b>	Automated System of Customs Revenue of Honduras
<b>SAT:</b>	<i>Superintendencia de Administración Tributaria de Guatemala</i> (Superintendency of Tax Administration in Guatemala)
<b>SIECA:</b>	<i>Secretaría de Integración Económica Centroamericana</i> (Secretariat for Central American Economic Integration)
<b>SIGA:</b>	<i>Sistema de Gestión Aduanera de República Dominicana</i> (Customs Management System in Dominican Republic)
<b>TCB:</b>	Trade Capacity Building Committee
<b>USAID:</b>	United States Agency for International Development
<b>VCR:</b>	Verification of Origin Unit
<b>VUVI:</b>	<i>Ventanilla Única Virtual de Importaciones</i> (Virtual Single Window for Imports)





Compliance with the rules of origin and the implementation of efficient customs systems were some of the challenges that arose from the signing of CAFTA-DR. With the support of the USAID-funded CRT Program, the region has advanced considerably in meeting the requirements of the agreement.



# EXECUTIVE SUMMARY

The signing of the Dominican Republic, Central America, United States Free Trade Agreement (CAFTA-DR) laid the groundwork for the region to galvanize its international trade by increasing the exchange of goods with the United States, thereby accelerating its economic growth.

If the promise of the treaty is to be realized, the CAFTA-DR region faces two critical challenges: 1) a qualitative change is needed in the private sector so that its products can compete in the United States; and 2) signatory governments must effectively and efficiently implement the provisions of the agreement through, for example, faithful adherence to the rules of origin and the establishment of efficient customs clearance procedures and systems.

In this context, the USAID Regional Trade Program for CAF-

TA-DR (CRT) was designed to support the region in responding to this dual challenge. Since its inception, in December 2006, CRT has achieved important results in its four program components:

1. Support the implementation, use, and understanding of the rules of origin (ROO) and the origin procedures (PO) set out in Chapter 4 of the CAFTA-DR.
2. Support the implementation of customs administration and trade facilitation requirements set out in Chapter 5 of the CAFTA-DR.
3. Strengthen the countries' foreign trade capacity in the framework of national action plans for trade-related capacity building.
4. Promote the adoption of three international trade facilitation instruments.

The success of CRT interventions was measured based on the progress made by the re-

gion's customs authorities and origin offices in implementing the requirements established in Chapters 4 and 5. A review of progress to date shows that the countries in the region have made considerable advancements and are currently equipped with nearly all of the products and elements they need to properly implement the requirements and terms set out in those chapters. A brief summary of CRT's main accomplishments in each component is presented below.

### **HOW DID CRT SUPPORT IMPLEMENTATION OF THE RULES OF ORIGIN AND ORIGIN PROCEDURES?**

- By strengthening the units responsible for origin in customs administration and foreign trade or treaty administration offices. CRT's efforts led to new, revised, and streamlined organizational structures; clearly defined staff requirements and the duties and responsibilities for each position; new procedures manuals; and improved capacity to perform origin verification procedures, post clearance audits and advance rulings.
- By establishing automated systems and procedures for issuing advance rulings.
- By building capacity and fostering better understanding and use of the rules of origin and origin procedures to enable the international public and private trade community to benefit from preferential tariffs:
  - o By training more than 2,887 importers, exporters, producers,

and civil servants participated in our capacity building programs.

- o Thousands have benefited from the Virtual Training Course on Rules of Origin, which promotes broader understanding of the issue through practical examples, graphics, videos, and other state-of-the-art multimedia tools.
- o By developing innovative information technology tools to facilitate the understanding and use of rules of origin, and the issuance of electronic certificates of origin. CRT developed an information system called the Electronic Document Generator (GEDOEL) to facilitate access to determination of origin of goods and certification. Any interested party can use this free, user-friendly tool, which can be accessed at <http://www.gedoel.sieca.int/>, to determine the origin of a good and to obtain a Certificate of Origin.

- By improving the regulatory framework and procedures to facilitate obtaining a preferential treatment ruling.

### **HOW DID CRT CONTRIBUTE TO IMPROVED CUSTOMS ADMINISTRATION?**

- By developing and implementing information technology systems for risk management that facilitate the selection of potentially high-risk shipments for physical inspection, while expediting the movement of goods for low-risk shipments, without physical inspection. These systems were implemented in El Salvador, Nicaragua, and Honduras.



The development and implementation of IT risk management systems for improved customs management was one of the contributions of CRT to the CAFTA-DR region.

- By strengthening risk management units. CRT helped establish new, revised, and streamlined organizational structures, developed procedures manuals, and improved capacity to apply risk analysis and management methods based on the use of profiles and criteria.
- By streamlining customs clearance procedures. Customs manuals developed for the international trade community provide complete information on the import and export of goods, including customs procedures, the legal and regulatory framework, and the application of free trade agreements. These guides were developed for Nicaragua, Honduras, Costa Rica, and Guatemala.
- By developing and implementing the Virtual Single Window for Imports (Ventanilla Única Virtual de Importaciones or VUVI) in El Salvador, Nicaragua, and Honduras. Interested

parties can employ this user-friendly electronic solution to complete the procedures and payments required to import goods subject to controls by other government institutions.

## HOW DID CRT PROMOTE TRADE FACILITATION?

- By promoting the adoption of international trade facilitation instruments or domestic laws that serve the same purpose. Examples include the Dominican Republic's approval and adoption of the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents and the drafting of the Electronic Signatures and Communications Law in El Salvador.
- By building public and private sector capacity in areas covered under CAFTA-DR, such as the intellectual property provisions set out in Chapter 15, the implementation and observance

of the investment commitments set out in Chapter 10, and the regulations concerning origin for the textiles and apparel sectors under Chapter 3.

- By strengthening foreign trade management in institutions such as the Dominican Republic Foreign Trade Office (DICOEX) or Guatemalan Office of Foreign Trade Administration (DACE).

This final report describes CRT's results and its impact in the CAFTA-DR region. Chapter 1 focuses on the overall results and impact; Chapter 2

describes results relating to rules and procedures of origin; Chapter 3 discusses CRT's contributions to improve the efficiency and effectiveness of customs clearance operations; Chapter 4 summarizes the program's efforts to build trade capacity and promote the adoption of international trade facilitation agreements; Chapter 5 identifies the lessons learned; and Chapter 6 offers ideas on the path that different countries in the CAFTA-DR region should follow to continue improving their implementation of the treaty.







Improvement in the efficiency and effectiveness of customs operations facilitates international trade.

## CHAPTER ONE

# WHAT RESULTS HAS CRT ACHIEVED?

One of the most visionary and challenging decisions that Central American countries (Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica) and the Dominican Republic made in the past decade was to sign, as a region, a free trade agreement with the United States, which boasts the largest economy in the world.

The Dominican Republic, Central America, United States Free Trade Agreement (CAFTA-DR) was signed on August 5, 2004,<sup>1</sup> paving the way for the region to galvanize its international trade by increasing the exchange of goods with the United States, and to accelerate the pace of its economic growth.

Yet the countries of the region must address two key challenges if the treaty's promise is to be realized. First, qualitative change is needed in the private sector if regional products are to compete with U.S. products. Second, signatory governments must implement the provisions and obligations contained in the CAFTA-DR in an effective and efficient manner

Regarding the latter point, customs authorities in the CAFTA-DR region faced myriad challenges associated with normal increases in international trade. Probably the two main challenges are:

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1. CAFTA-DR has been ratified by the legislatures of the United States, Honduras, El Salvador, Guatemala, Nicaragua, the Dominican Republic, and Costa Rica. The agreement entered into force in El Salvador on March 1, 2006; in Honduras and Nicaragua on April 1, 2006; in Guatemala on July 1, 2006; and in the Dominican Republic on March 1, 2007. Costa Rica approved CAFTA-DR in an October 7, 2007 referendum and it entered into force on January 1, 2009..

With international trade on the rise, the CAFTA-DR region faces many challenges, such as the strict compliance of rules of origin and the expedited flow of merchandise.



- Trade operators must ensure that flows of goods under tariff preferences fully comply with the rules of origin set out in the treaty; and
- Expedited flows of goods must be ensured through the implementation of efficient customs clearance procedures and systems.

In this context, the USAID Regional Trade Program for CAFTA-DR (CRT) was created with the mission of assisting the region to respond to this dual challenge.

Since its inception in December 2006, CRT has supported trade facilitation and improved customs administration throughout the Central American region and in the Dominican Republic. It has provided technical assistance and specialized training to build capacity in the public and private sectors so that they can benefit from the

opportunities presented by CAFTA-DR. It has achieved results in the four program components:

1. Support the implementation, use, and understanding of the rules of origin (ROO) and origin procedures (PO) set out in Chapter 4 of the CAFTA-DR. The two key results areas are: a) to ensure that the national authorities tasked with applying the ROO are organized and trained to efficiently administer the ROO and PO; and b) to ensure that the private sector is able to understand, use, and take advantage of the benefits of the treaty through the correct application of the ROO and PO.
2. Support implementation of the customs administration requirements set out in Chapter 5 of the CAFTA-DR. The two key results areas are: a) to improve the efficiency and effectiveness of customs clearance operations and, ultimately, to facilitate trade

through efficient risk management; and b) to improve the transparency, effectiveness, and predictability of customs operations through expedited and streamlined procedures that reduce clearance times.

3. Strengthen the countries' foreign trade capacity in the framework of national action plans for trade related capacity-building. In this context, CRT focused on identifying at least one priority activity for each country and each year within the framework of their national action plans for trade capacity building.

4. Promote the adoption of three international instruments that contribute to trade facilitation:

- The Inter-American Convention on the Legal Regime of Powers of Attorney to be Used Abroad.
- The Inter-American Rules on Electronic Documents and Signatures (IAREDS).
- The Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents (Apostille Convention).

This chapter highlights the CRT program's main results and impacts in these four components and outlines the various forms they have taken.

## **RESULTS AND IMPACT**

### **Implementation of the requirements under Chapters 4 and 5 of the CAFTA-DR**

The success of CRT interventions has been measured by the

progress that regional customs authorities and origins offices have made in implementing the requirements set out in Chapters 4 and 5 of the CAFTA-DR.

CRT designed an "Opportunities Traffic Light" (see box 1) to obtain these measurements. This management tool serves three purposes: 1) to identify areas where CAFTA-DR member countries might further improve implementation of the requirements set out in Chapters 4 and 5; 2) to support the development of specific assistance plans for each country that reflect the technical assistance and training needs identified; and 3) to measure the degree of progress made as a result of program interventions.

The program has achieved significant results, as shown in the information elicited by this tool (see figure 1). The Opportunities Traffic Light methodology was applied in May 2009 and determined that CAFTA-DR countries were equipped on average with 62.23 percent and 61.34 percent of the products and/or elements required for optimum implementation of Chapters 4 and 5 respectively. By July 2010, these percentages had jumped to 91.6 percent and 83.04 percent due to project interventions. Today, CAFTA-DR countries are equipped with most of the products or elements they need to properly implement the requirements of the relevant articles and chapters.

## BOX I

# Opportunities Traffic Light (Semáforo de Oportunidades, or SO)

### WHAT IS THE OPPORTUNITIES TRAFFIC LIGHT?

It is a management tool to help identify areas where the region's customs and origin offices should focus their efforts to improve implementation of Chapters 4 and 5 of the CAFTA-DR. It is also used to measure the progress made by CRT and the countries involved in implementing those requirements.

### HOW DOES IT WORK?

The Opportunities Traffic Light methodology identified a list of products or elements for each article under Chapters 4 and 5 of CAFTA-DR, along with the minimum characteristics deemed necessary if the countries are to improve compliance with the relevant obligations derived from those provisions. CRT created the list based on criteria drawn from experts on the issue and from international best practices in customs and origin administration.

To identify areas of opportunity, CRT checked whether the customs directorates and agencies responsible for verification of origin in each country had the products described on the list. Based on this assessment, each article of the treaty was assigned a traffic light color as follows:

- **Green:** the country has the product necessary to implement the requirements set out in the FTA.
- **Yellow:** the country has the product in part; or else, it has taken concrete steps to have everything it needs in place in the near future.
- **Red:** the country does not have the necessary product, nor has it taken steps to obtain it.

### WHAT WAS ACHIEVED?

By identifying areas for improvement or areas of "opportunity," CRT was able to develop assistance plans that were specifically tailored to each country's technical assistance and training needs and to measure the progress made as a result of program interventions. Similarly, the SO helped customs and origin verification offices target their own resources and efforts in the identified areas or request donor assistance in a coordinated manner.

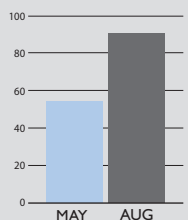
The CAFTA-DR countries now have a valuable management evaluation tool to detect setbacks, progress, or intermediary points in compliance with treaty requirements. Moreover, they have the information they need to move forward in implementing the rules of origin and customs administration procedures.



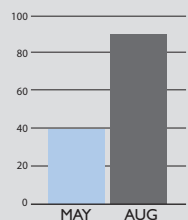
FIGURE I. RESULTS OF OPORTUNITIES:TRAFFIC LIGHT METHOLOGY

#### DOMINICAN REPUBLIC

**Chapter 4**  
May 2009 54%  
August 2010 91.25%

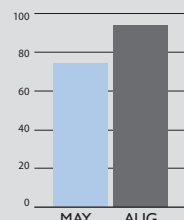


**Chapter 5**  
May 2009 39.44%  
August 2010 89.9%

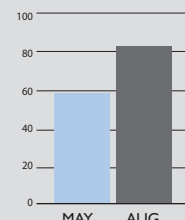


#### HONDURAS

**Chapter 4**  
May 2009 73.65%  
August 2010 93.35%

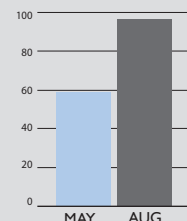


**Chapter 5**  
May 2009 57.38%  
August 2010 82.55%

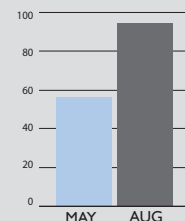


#### NICARAGUA

**Chapter 4**  
May 2009 58.5%  
August 2010 96.4%

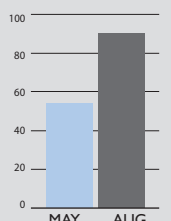


**Chapter 5**  
May 2009 56.7%  
August 2010 94.75%

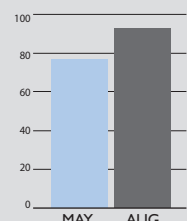


#### GUATEMALA

**Chapter 4**  
May 2009 54%  
August 2010 90%

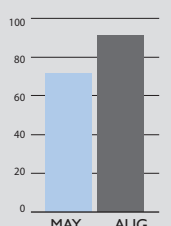


**Chapter 5**  
May 2009 76.55%  
August 2010 92.6%

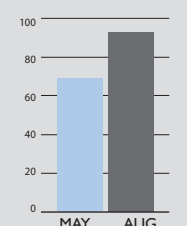


#### EL SALVADOR

**Chapter 4**  
May 2009 70.95%  
August 2010 90.5%

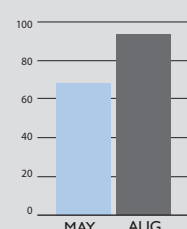


**Chapter 5**  
May 2009 68.6%  
August 2010 92.1%

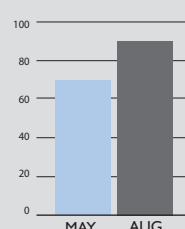


#### COSTA RICA

**Chapter 4**  
May 2009 68.3%  
August 2010 93.5%



**Chapter 5**  
May 2009 69.36%  
August 2010 90%



### Impact on customs operations and verification of origin

- More effective and efficient customs operations

To expedite the flow of goods at border points, CRT assisted the countries in designing and implementing efficient customs clearance procedures and risk management systems. These improved procedures and systems facilitate the selection of potentially higher risk shipments for physical inspection, while expediting the transit of low-risk shipments without inspection.

Regional customs offices have improved their goods clearance times, as well as the efficiency and effectiveness of customs operations, as shown in table 1 and graphics 1 and 2.

- Virtual Single Window for Imports (Ventanilla Única Virtual de Importaciones, or VUVI)

CRT designed the VUVI as a tool to reduce clearance times for definitive imports. Interested parties can use this computerized system, which is available on the Internet, to complete all of the required procedures and payments to import goods subject to control. The VUVI also issues any required import permits for these goods. Originally designed for El Salvador, the system subsequently was replicated in Nicaragua and Honduras.

- Reduction in physical inspections through the application of risk management systems

Working closely with the Secretariat for Central American Economic Integration (SIECA), and with USAID support,

**TABLE 1. CLEARANCE TIMES FOR CAFTA-DR COUNTRIES (IN HOURS)**

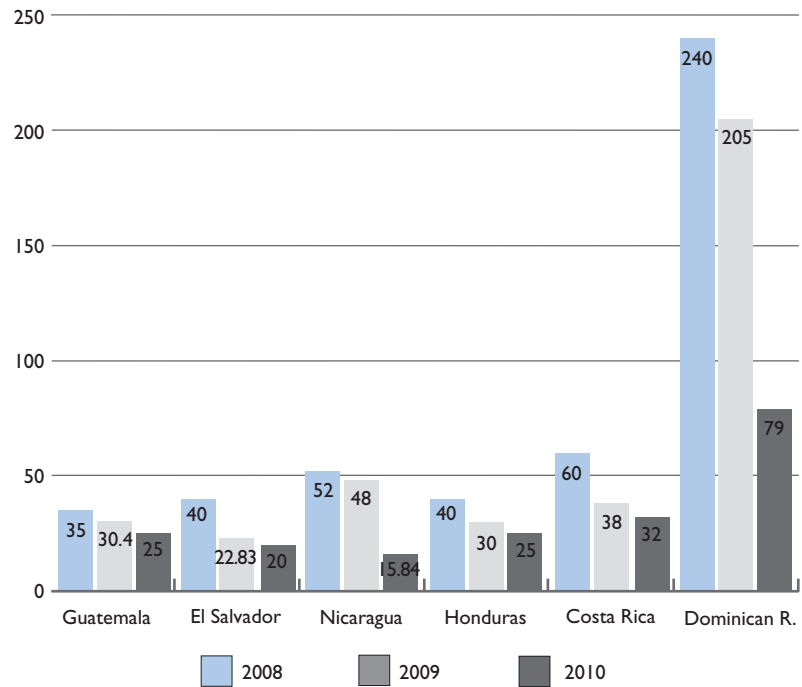
CAFTA-DR country	2008*	2009	2010	Fulfillment of the 48-hour time period pursuant to Article 5.2 of CAFTA-DR
Costa Rica	75	38.22	45.00	3 hours under
El Salvador	40	22.83	20.00	28 hours under
Guatemala	48	30.40	25.00	23 hours under
Honduras	45	30.48	25.00	23 hours under
Nicaragua	60	48.00	15.84	32.16 hours under
Dominican Republic	205	205.92	79.00	31 hours over

\* Estimated figures. Clearance times for goods in these countries were not measured prior to CRT implementation.

Source: Prepared by the authors as reported in the "Outcomes of customs clearance time measurements in compliance with the provisions of Article 5.2 of the CAFTA-DR" for each member country. CRT USAID, 2009, 2010.

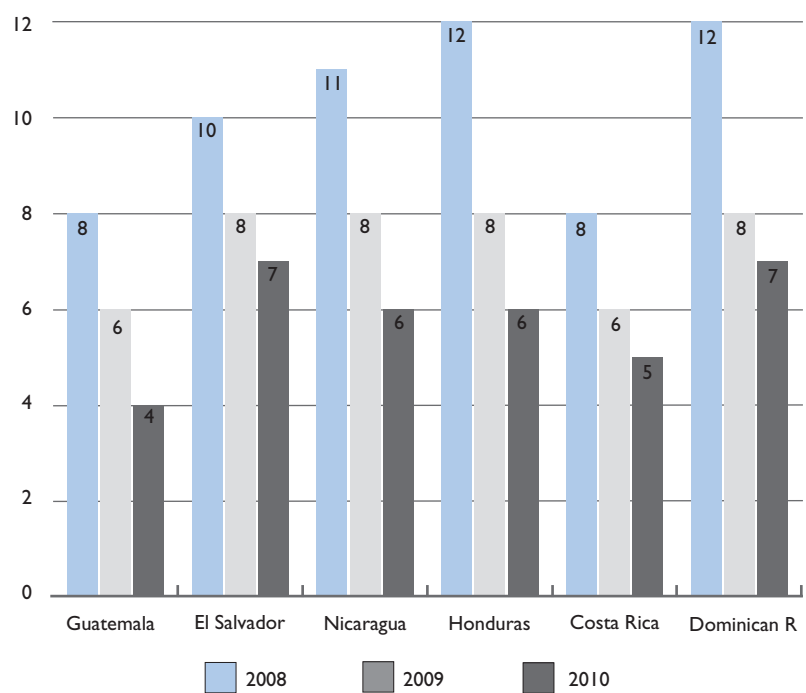
## GRAPHIC 1. IMPORTING GOODS, CLEARANCE TIMES 2008-2010

(Hours)



## GRAPHIC 2. EXPRESS SHIPMENTS, CLEARANCE TIMES 2008-2010

(Hours)



The CRT Program backed activities for developing solid understanding and application of the rules of origin by customs officials, the private sector, and custom agents.



CRT designed, developed, and implemented—in the customs offices of El Salvador, Guatemala, Honduras, and Nicaragua—a series of complementary computerized modules to strengthen risk management systems.

While these modules have only recently been implemented, their impact is already evident in indicators of the efficiency and effectiveness of customs operations in those countries. Guatemala, for example, was able to reduce the number of physical inspections from 65 to 30 percent of total shipments while improving the effectiveness of these inspections from 7 to 9 percent. The results are even more significant in El Salvador, where the inspections have been reduced from 25 percent of all shipments to approximately 6 percent, while their effectiveness increased from 4 to more than 10 percent.

- Improved effectiveness and efficiency of verification of origin procedures

CRT assisted all of the customs offices or treaty administration units in establishing or strengthening their origin verification units. Interventions included training and technical assistance in verification of origin methods and techniques for performing origin audits, the development of legal provisions applicable to Chapter 4, the development of manuals on monitoring the origin of goods, and recommendations on the organizational structure and personnel profiles of these units.

#### **Impact on international trade facilitation**

- Improved understanding and use of rules and procedures of origin under CAFTA-DR

CRT made a concerted effort to help customs officers and entrepreneurs better understand and use the ROO through the development of electronic tools, virtual courses, and practical seminars and workshops on the proper analysis, interpretation, and application of the ROO and PO.

*Information technology tools.*

CRT developed an innovative software tool to guide users in the origin determination process and also in the issuance of electronic Certificates of Origin. With this user-friendly system, called the Electronic Documents Generator, or GEDOEL, and located at <http://www.gedoel.sieca.int/>, any interested party can determine the origin of a particular good and obtain a certificate of origin free of charge. The GEDOEL website had registered more than 15,000 hits by July 2010, and had more than 500 registered users, many of whom successfully obtained their certificate of origin. Based on a conservative estimate that only 10 percent of users benefited from using the GEDOEL, and taking into account the estimated US\$1,000 that a specialist would charge for determination of origin, this system potentially has saved users approximately US\$1.5 million.

*Seminars and workshops.* Seventeen of the total of 38 events offered on CAFTA-DR requirements focused on origin issues. The 1,046 people who attended these seminars and workshops accounted for nearly half (44.78 percent) of the total participants for all topics (table 2).

*Virtual courses.* CRT developed the Virtual Training Course on Rules of Origin, which includes real-life examples, graphics, videos, and other state-of-the-art multimedia tools. This is the first e-learning tool in the world on preferential rules of origin. It is available free of charge to countries in the CAFTA-DR region, either on the Internet or in CD-ROM.

- Foreign trade capacity-building

*Institutional strengthening in the Dominican Republic.* CRT strengthened management in the Office of Foreign Trade (DICOEX) in the Dominican Republic by supporting the creation of positions, roles, and duties necessary to implement and administer trade agreements, including CAFTA-DR. Subsequently, CRT supported the design and adoption of a Quality Management System under ISO standard 9001:2000. With the help of CRT, and after an adaptation and systematization period, DICOEX received accreditation under this international quality standard.

*Development of technological platforms in El Salvador.* CRT supported institutional modernization and the construction of an “electronic government” by introducing upgrades to the electronic payments platform, P@GOES. Working with the Technical Secretariat of the Office of the Presidency, CRT expanded coverage of P@GOES to the General Customs Administration, the Ministry of Public Health and Social Assistance,



**TABLE 2. TRAINING ON ORIGIN ISSUES BY CRT TO THE CAFTA-DR COUNTRIES (2007-2010)**

Topic	Number of trainings	Number of participants	% Of private sector participants	% Of public sector participants	% Of male participants	% Of female participants
Rules of origin	17	953	65	35	53.80	46.20
Trade Issues (IP, electronic signature, anti-piracy, ISO, applied statistics, adds, etc.)	19	1,085	65	40	52.26	47.74
GEDOEL Guidelines	6	451	60	40	54.00	46.00
Customs Guide presentation and guidelines <sup>1</sup>	2	160	65	35	54.00	46.00
CBP Seminars	6	388	70	30	55.00	45.00
<b>Total</b>	<b>50</b>	<b>3,037</b>	<b>65<sup>2</sup></b>	<b>35<sup>2</sup></b>	<b>54.52<sup>2</sup></b>	<b>45.48<sup>2</sup></b>

<sup>1</sup> Customs Guide was made to Honduras, Nicaragua and Costa Rica, but the release was only made in Honduras and Costa Rica.

<sup>2</sup> Averages

Source: Authors' calculations based on consolidated log file training to CAFTA-DR countries by the CRT.

and the National Registration Center, so that they too could offer the electronic payment option. Three new financial institutions were also added to the system. An enhanced and expanded P@GOES helped to streamline government procedures and boosted the country's competitiveness through savings in transaction costs and greater operational transparency.

- Adoption of international trade facilitation instruments

*Adoption of the Apostille Convention in the Dominican Republic.* The Hague Convention Abolishing the Requirement of

Legalization for Foreign Public Documents entered into force in the Dominican Republic on August 30, 2009, after the relevant legislation was ratified by the Congress and signed by President Leonel Fernández. CRT was instrumental in publicizing the benefits of this convention, building consensus, and encouraging the Dominican Congress to take it under consideration.

*Preparation of draft legislation in El Salvador and Honduras.* CRT worked with the Technical Secretariat of the Office of the Presidency of El Salvador to develop a new electronic documents and

signatures law. The new bill was disseminated among public and private stakeholders in an effort to build consensus, and it is hoped that it will be taken up by the legislature.

Similarly, CRT worked with the Honduran Private Enterprise Council (COHEP) to develop and disseminate draft legislation on electronic documents and signatures for that country. The program guided the process of gathering input, drafting the

bill, and promoting review of the legal text in order to adapt the language as necessary to ensure its consistency with Honduran law.

The adoption of these laws and conventions facilitates international trade and creates incentives for foreign investment by streamlining bureaucratic procedures in import-export operations, which are anticipated to grow significantly in volume as a result of CAFTA-DR.



**More than 3,037 individuals from the private and public sectors received training led by CRT.**

# Trade between Central America and the Dominican Republic with the United States<sup>2</sup>

CRT contributed to trade facilitation in the Central America region and the DR with satisfactory results, for example, through the reduction and automation of custom processes. Despite the external negative factors such as the continuing increase of oil and food as well as the global financial crisis that affected the United States economy, the main commercial partner of the member countries of the CAFTA-DR, international trade increased in a regional level. Foreign trade has contributed to economic growth in the region, this is reflected in the statistical increment of foreign trade in each of the CAFTA-DR members. CAFTA-DR countries combined are the United States' 12th largest goods trading partner with \$38,786 millions on dollars total (two way) goods trade during 2009. Imports from the U.S. to the region totaled \$18,842 million; while exports to the U.S. totaled \$19,944 million. The CAFTA-DR countries goods trade deficit with the U.S. was \$1,102 million in 2009, an 81.76% decrease (\$4,941 million) over 2008. In 2007, the CAFTA-DR countries exported \$18,742 million to the U.S. CAFTA-DR countries imports from the U.S. reached \$22,394 million in 2007.<sup>2</sup>

## EXPORTS TO THE USA (IN MILLIONS OF US\$)

Country	2007*	2008	2009
Guatemala	3,026	3,463	3,148
Nicaragua	1,604	1,704	1,612
El Salvador	2,044	2,228	1,822
Honduras	3,912	4,041	3,319
Costa Rica	3,942	3,938	5,612
Dominican Republic	4,216	3,978	3,329
<b>Total</b>	<b>18,742</b>	<b>19,351</b>	<b>18,842</b>

\* U.S. Census Bureau, Foreign Trade Statistics 2007

## IMPORTS FROM THE USA (IN MILLIONS OF US\$)

Country	2007*	2008	2009
Guatemala	4,065	4,718	3,875
Nicaragua	890	1,094	715
El Salvador	2,313	2,462	2,019
Honduras	4,461	4,846	3,368
Costa Rica	4,580	5,680	4,700
Dominican Republic	6,084	6,594	5,269
<b>Total</b>	<b>22,394</b>	<b>25,395</b>	<b>19,944</b>

\* U.S. Census Bureau, Foreign Trade Statistics 2007

### GUATEMALA



The Guatemala goods trade deficit with the U.S. was \$727 million in 2009, a 42.11% decrease (\$529 million) over 2008. Guatemala goods exports to the U.S. totaled \$3,148 million in 2009, a 8.3% decrease (\$315 million) from 2008, but up 145% over the last 15 years. Guatemala exports to the U.S. are roughly the same as 2005 (pre-FTA). The five largest export categories in 2009 were: Knit Apparel (\$897 million), Edible Fruit and Nuts (bananas and cantaloupes) (\$602 million), Spices, Coffee (\$346 million), Precious Stones (gold) (\$341 million), and Woven Apparel (\$206 million).

2. The information on this page was obtained from [www.ustr.gov](http://www.ustr.gov), the Office of the United States Trade Representatives (USTR) website.  
3. International Trade Administration, Department of Commerce, CAFTA-DR: 2007 Trade Review

## NICARAGUA



The Nicaragua trade surplus with the U.S. was \$897 million in 2009, a 44.3% increase (\$288 million) over 2008. Nicaragua goods exports to the U.S. totaled \$1,612 million in 2009, a 5.6% decrease (\$91 million) from 2008. Nicaragua exports to the U.S. are up 36.5% from 2005 (Pre-FTA). The five largest Nicaraguan export categories in 2009 were: Knit Apparel (\$648 million), Woven Apparel (\$245 million), Electrical Machinery (\$160 million), Spices, Coffee, and Tea (coffee) (\$113 million), and Meat (beef) (\$78 million).

## EL SALVADOR



The El Salvador goods trade deficit with the U.S. was \$197 million in 2009. Goods imports to El Salvador totaled \$2,019 million; Goods exports totaled \$1,822 million. El Salvador goods exports to the U.S. totaled \$1,821 million in 2009, down 18.2% (\$406 million) from 2008, but up 199% over the last 15 years. El Salvador exports to the U.S. are down 8.4% from 2005 (Pre-FTA). The five largest export categories in 2009 were: Knit Apparel (\$1,100 million approximately), Woven Apparel (\$186 million), Spices, Coffee and Tea (coffee) (\$84 million), Beverages (ethyl alcohol) (\$82 million), and Special other (returns) (\$77 million). El Salvador goods imports from the U.S. in 2009 were \$2,018 million, down 18.0% (\$443 million) from 2008. El Salvador imports from the U.S. are up 8.9% from 2005 (Pre-FTA).

## HONDURAS



The Honduras goods trade deficit with the U.S. was \$48 million in 2009, a 94% decrease (\$757 million) over 2008. Honduras goods imports totaled \$3,368 million; goods exports to the U.S. totaled \$3,319 million a 17.8% decrease (\$722 million) from 2008, but up 203% over the last 15 years. Honduras exports to the U.S. are down 11.3% from 2005 (pre-FTA). The five largest export categories in 2009 were: Knit Apparel (\$1.7 billion), Woven Apparel (\$420 million), Electrical Machinery (\$239 million), Edible Fruit and Nuts (mostly bananas) (\$206 million), and Precious Stones (gold) (\$153 million). Honduras goods imports were up 4.0% from 2005 (pre-FTA).

## COSTA RICA



The Costa Rica goods trade surplus with the U.S. was \$912 million in 2009, changing from a deficit of \$1,174 million in 2008. Goods imports totaled \$4,700 million; Goods exports to the U.S. totaled \$5,612 million a 42.2% increase (\$1,674 million) from 2008 (pre-FTA), and up 240% over the last 15 years (pre-FTA). The five largest export categories in 2009 were: Machinery (\$2.6 billion), Optic and Medical Instruments (\$791 million), Edible Fruit and Nuts (pineapples and bananas) (\$648 million), Electrical Machinery (\$274 million), and Spices, Coffee, and Tea (mainly coffee) (\$157 million). Costa Rica goods imports, in 2008 were down 17.25% (\$980 million) from 2008 (pre-FTA).

## DOMINICAN REPUBLIC



The DR trade deficit with the U.S. was \$1,939 million in 2009, a 25.8% decrease (\$677 million) over 2008. DR goods exports to the U.S. totaled \$3,329 million in 2009, a 16.29% decrease (\$648 million) from 2008, but up 8% over the last 15 years. DR exports to the U.S. are down 26.6% from 2006 (pre-FTA). The five largest export categories in 2009 were: Optical and Medical Instruments (\$526 million), Precious Stones (jewelry) (\$436 million), Electrical Machinery (\$371 million), Knit Apparel (\$341 million), and Tobacco (\$292 million). DR goods imports from the U.S. in 2009 were \$5,269 million, down 20.1% (\$1,326 million) from 2008. DR imports from the U.S. are down 1.5% from 2005 (pre-FTA).



With support from the CRT program, CAFTA-DR countries have made considerable progress in implementing the requirements and obligations under the FTA with the United States.



## CHAPTER TWO

# HOW DID CRT HELP TO IMPROVE UNDERSTANDING AND USE OF THE RULES OF ORIGIN UNDER CAFTA-DR?

The rules and procedures of origin established in CAFTA-DR can be difficult to understand, use, and administer. Nonetheless, the international trade community and origin and customs officials must have a clear grasp of these standards and regulations in order to apply them effectively in determining whether or not a particular good meets origin requirements.

From the standpoint of regional importers, exporters, and producers, proper understanding and use of the rules of origin, or ROO, and origin procedures, or PO, is the key to benefiting from CAFTA-DR. This understanding is useful if it is primarily

real and practical, as opposed to theoretical, so that it leads to the proper classification of the final product and access to preferential tariffs. From the standpoint of origin officials, in contrast, the goal is to ensure the efficient clearance and rapid transit of goods to facilitate trade.

In this context, CRT provided active support on two fronts: 1) to organize and train national origin officials in the efficient administration of the ROO and PO; and 2) to help private sector stakeholders understand, use, and avail themselves of the treaty's benefits through the correct application of the ROO and the PO.

Throughout its duration, CRT helped improve the administration of origin, facilitating trade across borders.



## HOW DID CRT HELP IMPROVE ADMINISTRATION OF THE ROO?

Origin and customs officials must be properly organized and trained in order to correctly apply and control the ROO and comply with the PO. They also must be equipped with the methodological tools and procedures, manuals, and control techniques necessary to effectively and efficiently perform tasks such as verification of origin, post clearance audits, and the issuance of advance rulings. CRT worked in all of these action areas, as described in this chapter.

### Strengthening Origin units

Improper application of the origin regime has a direct impact on national industry and customs revenues. CRT worked throughout the program period to assist customs offices and

treaty administration units in setting up or strengthening their verification of origin units.

As shown in the examples provided below, CRT's efforts led to new, revised, and more efficient organizational structures; clearly defined staff requirements, duties, and responsibilities for each position; new procedures manuals; and improved capacity to perform verification of origin procedures, post clearance audits, and the issuance of advance rulings.

### A new department of origin in the Dominican Republic

With CRT support, the General Customs Administration of the Dominican Republic (DGA-DR) established the Department of Rules of Origin tasked with origin verification and audits. Today it is equipped with the organizational structure, human

## MEETING REGULATIONS AND AVOIDING TRIANGULATION IN THE DOMINICAN REPUBLIC

“The idea [of the new Department of Rules Origin (DNO)] was to establish a division of labor. The DNO will focus on advisory services and participation in events relating to regulations by disseminating measures and offering ongoing advisory support. The Monitoring Unit [Unidad en Fiscalización] will work a posteriori on files that raise any kind of question. It will be tasked with ensuring strict compliance with origin requirements and facilitating the correct application of tariff preferences.

The benefit for the DGA-DR is that it ensures strict compliance with treaty regulations and provisions by preventing customs crimes related to origin and [makes it possible] to punish such acts when they are detected.

For the private sector, it is a matter of avoiding the threats to local industry posed by triangulation and any other mode of eluding origin, and it boosts transparency in commerce”.

— **NAPOLÉON MORETA,**  
**OFFICIAL FROM THE DEPARTMENT OF ORIGIN**  
**OF THE DOMINICAN REPUBLIC.**

resources, and materials needed for optimum performance.

To consolidate and strengthen this new department, the program assisted the DGA-DR in developing an origin verification manual tailored to meet national needs. The manual is designed as a guide for customs officials responsible for implementing post clearance origin controls.

As a result of this effort, the DGA-DR's Department of Origin is equipped to efficiently perform post clearance verifications of goods, which reduces the number of on-the-spot inspections, expedites the clearance process, and facilitates commerce.

## **A strengthened verification of origin unit in El Salvador**

Since its establishment in 2004 under the General Customs Administration of El Salvador (DGA-ES), the Verification of Origin Unit has been in a state of constant evolution. CRT targeted its assistance to this process in four areas:

1. Technical training in verification of origin methods and job descriptions.
2. Restructuring of the Department of Origin so that it is endowed with a more comprehensive role to improve effectiveness and efficiency in the administra-

## A MORE COMPREHENSIVE VISION IN EL SALVADOR

“Thanks to the support of the CRT, [the Verification of Origin Unit] now has a more comprehensive vision of the verification of origin process and management of professional roles, particularly for cases under appeal, which must be subject to third-party review.

There is a clear vision of the changes that must be made in the Department of Origin so that it can perform its duties in keeping with the objectives of the DGA and the Ministry of the Treasury, primarily in terms of monitoring compliance with customs and foreign trade laws.

We have capitalized on experiences in the control of origin and bolstered our expertise on this topic.”

— JAIME FONSECA,  
HEAD OF THE DEPARTMENT OF ORIGIN OF THE DGA-ES.

tion of the origin process and in the collection of applicable duties and taxes for goods that fail to meet origin requirements.

3. Technical assistance to develop legal provisions relevant to Chapter 4 of the CAFTA-DR.
4. Development of the Manual for Origin Control of Goods.

### Building capacity and practical training

CRT offered targeted training programs to the staff of the region’s origin units that emphasized practice over theory. This led to improved oversight of compliance with the standards of origin for importing goods and contributed to more fairness in customs collections procedures.

International and regional experts gave workshops and worked with origin units on a range of topics such as:

- Customs procedures related to ROO.
- CAFTA-DR rules of origin, including origin criteria, accumulation of origin, goods wholly obtained or produced, criteria for changing tariff classification, criteria for regional value content (RVC) —the build-down and build-up methods, accessory or secondary criteria (for de minimis and its exceptions, fungible goods and materials, etc.).
- Procedures and standards for verification of origin.
- The origin regime for textiles in CAFTA-DR, including expanded accumulation, goods in short supply, and verification of origin for textiles and apparel.
- Rights and duties of producers, importers, and exporters related to the origin regime under CAFTA-DR.

### **Development of manuals for ROO administration**

CRT worked with the region's origin units to develop complete manuals on verification of origin tailored to each country. These basic guides provide verifiers of origin with a technical framework for the planning and verification of goods imported under preferential tariff treaties.

In addition to establishing the duties of each verification of origin unit, the manuals contain detailed information on topics such as the following: types of customs control; the role of customs offices in relation to origin, and the tasks of customs officers involved in direct control; key factors in monitoring the origin of goods, including sources of information for monitoring and criteria for initiating a process; guidelines for monitoring the origin of textile and non-textile goods; verification techniques, including audit standards and

procedures and verification programs; advice pertaining to risk analysis, audit planning, and other recommendations on verification; and finally, procedures for issuing advance rulings and rules governing confidentiality on the part of the authorities.

### **HOW DID CRT HELP THE INTERNATIONAL TRADE COMMUNITY UNDERSTAND AND USE THE RULES OF ORIGIN?**

CRT designed and implemented practical training programs and designed innovative and user-friendly electronic tools that facilitated understanding and use of the rules of origin.

#### **Training the business community in ROO**

Working in conjunction with the Secretariat for Central American Economic Integration (SIECA), CRT designed and implemented training plans on

### **IMPROVED PROCEDURES FOR VERIFICATION OF ORIGIN IN GUATEMALA**

Trade facilitation requires a delicate balance between control and speed in the release of goods. It is possible, however, for a customs office to exercise control without sacrificing the speed of service provision.

CRT worked with the Office of Foreign Trade Administration (DACE) in Guatemala to establish a systematic methodology, criteria, and resources to reduce the number of physical inspections of incoming goods. DACE was trained in procedures to issue advance rulings and in verification of origin procedures for different types of goods, including textiles. Other work programs were designed to perform verification of origin audits.

## VERIFICATION WORK PROGRAMS AND PLANNING

“Through the trainings [conducted by CRT], we were able to improve the questionnaires to initiate verification of origin procedures with the various countries with which Guatemala has free trade agreements. We also implemented work programs for verification of origin audits, based on the requirements of the particular goods investigated.

The annual operational plan includes a plan to initiate verification of origin procedures for goods and merchandise imported to Guatemala, which are requested by the SAT and other interested parties. There is a verification plan, which is gradually being adapted in accordance with the FTA, the particular good to be investigated and the specific rule of origin..”

— CLARA LUZ MARROQUÍN,  
ADVISOR TO THE OFFICE OF FOREIGN TRADE  
ADMINISTRATION, MINISTRY OF THE ECONOMY,  
GUATEMALA..

origin issues for each country. These plans included holding theoretical-practical conferences and intensive seminars/workshops on rules of origin under CAFTA-DR. They were designed to impart, examine, and explain the technical aspects of rules of origin. These courses were always supplemented by consultation sessions to examine specific cases and answer any

questions participating firms might have about their specific products.

During the program period, CRT held 38 formal training events for a total of 2,300 participants including customs officials and agents, judges and magistrates, importers, and exporters.

## TRAINING JUDGES AND PROSECUTORS IN ORIGIN ISSUES

An increase in customs rulings on rule of origin violations has led to an increase in the number of appeals brought before judicial entities or customs courts. The problem is that many of the requests were resolved without applying proper ROO methods.

CRT therefore designed a course for judges, prosecutors, and magistrates throughout the region, which covered the essential points of CAFTA-DR regulations. It was attended by an average of 300 members of tax and customs courts and customs legal experts.



## Creating innovative electronic tools

Notwithstanding their success, training programs targeting the private sector provide only limited coverage relative to the universe of importers, exporters, and producers in the region. CRT therefore looked for other

ways to train the international trade community and foster understanding and the proper determination of origin.

As illustrated below, CRT designed and developed innovative electronic tools to address this problem.

**USAID**  
DEL PUEBLO DE LOS ESTADOS  
UNIDOS DE AMÉRICA

REGLAS DE ORIGEN:  
ASPECTOS FUNDAMENTALES



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[Antecedentes](#)  
[Concepto país de origen](#)  
[Dificultades de aplicación](#)  
[Tipos de reglas](#)  
[Reglas de origen no preferenciales](#)  
[Reglas de origen preferenciales](#)  
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### Módulo 1: Introducción a las reglas de origen



CRT developed a virtual Rules of Origin course. Through this course, interested parties acquire a solid understanding of the different methodologies used to determine the origin of goods through practical examples, graphics, videos, and other multimedia tools.

## BOX 2

# Two Innovative and Powerful Information Technology Tools: GEDOEL and Virtual Training Course on ROO

### GEDOEL: A POWERFUL REGIONAL TRADE FACILITATION TOOL

**The problem.** The ROO and PO set out in CAFTA-DR are complex and not easily grasped and interpreted. In the past, countries have approached this problem through extensive training programs sponsored by chambers of commerce, customs agencies, and the like, but these types of programs are relatively limited in terms of coverage and their effectiveness has not been proven. Moreover, given the dearth of specialized local sources in the area of ROO, it is not uncommon for firms to make mistakes when determining origin and completing the respective certificates of origin. This can leave them vulnerable to severe legal and financial penalties or compel them to hire expensive specialized consultants to aid them in this task. This problem has a disproportionate impact on small and medium-sized businesses.

**The solution.** CRT designed the Electronic Documents Generator, or GEDOEL, an electronic tool that guides the user through a series of decision trees made up of closed, easily understood questions that are designed to determine whether or not a particular product (identified by its Harmonized Tariff Schedule, or HTS, code) satisfies the origin requirements under CAFTA-DR. If it does, the system is capable of generating the respective certificate of origin. Given the dynamic nature of foreign trade, the system's design is flexible enough to handle changes to the ROO. The decision trees, then, can be modified and uploaded onto the GEDOEL, without any need for information technology professionals or computer programmers.

For example, a jeans producer wishing to export from Honduras to the United States can enter the HTS code for that particular product into the system (see sample screen). After guiding the user through a series of questions on materials (e.g. thread, buttons, cotton, etc.), production process, and dispatch mechanisms used to produce and ship the final product, the GEDOEL determines whether it satisfies origin requirements under CAFTA-DR.

To ensure that users understand the ROO concepts contained in the questions, GEDOEL includes extensive, detailed help files that use simple language and examples to help them arrive at the correct answers.

Based on the answers provided by the users, GEDOEL is then able to establish whether or not specific goods comply with the ROO and to issue the certificate of origin.

GEDOEL has been accepted by all CAFTA-DR countries as a legitimate commercial practice and is available free of charge at: <http://www.sieca.org.gt/gedoel>. The application is installed on the servers of the Secretariat for Central American Economic Integration (SIECA), which is responsible for administering and maintaining it.

**Results.** Given that it was only installed recently, the GEDOEL system's impact is still modest. Its impact is likely to grow, however, as more users begin to take advantage of it. The GEDOEL website had registered more than 15,000 hits as of July 2010, and had over 500 registered users to whom certificates of origin had been issued.

Based on a conservative assumption that only 10 percent of users benefited from the GEDOEL system and that an expert would charge approximately US\$1,000 to render a determination of origin, trade users in the region potentially saved some US\$1.5 million. Moreover, this does not take into account savings associated with possible legal and financial penalties for erroneous determination of origin.

## VIRTUAL TRAINING COURSE ON RULES OF ORIGIN

There is an urgent need to broaden access to knowledge and reference materials on the rules of origin if government officials, entrepreneurs, and industrial and trade associations are to avail themselves of the benefits and opportunities offered by trade agreements.

Aware of this pressing need, CRT developed the Virtual Training Course on Rules of Origin. Using practical examples, graphics, videos, and other state-of-the-art multimedia tools, this course offers users a vast amount of information on the issue.

This course is the first e-learning tool in the world on preferential rules of origin. It is an innovative tool in the field of international trade and it is available free of charge to countries in the CAFTA-DR region on the Internet and in CD-ROM.

**Objectives.** The course is a practical, modern tool designed to improve understanding of the ROO and to promote voluntary, informed compliance with the provisions governing preferential rules of origin set out in trade agreements.

At the end of the course, the user will be familiar with the provisions related to the three most important elements of a preferential origin regime:

- Methods to determine the origin of a good.
- The supporting documentation used to demonstrate compliance with the ROO.
- The dispatch requirements governing an originating good.

The course also helps identify the risks inherent to an incorrect determination of origin and the benefits for governments and firms when these rules are applied correctly.

**What is in the course content?** The course includes eight modules and lasts approximately 10 hours. It uses examples and case studies of goods to enhance understanding of the concepts and their application in real international trade scenarios. While many of the examples and case studies are drawn directly from the provisions of CAFTA-DR, the theoretical content of each module is more general in nature in order to contribute to a more comprehensive understanding of the issue.

After completing each module, the user can demonstrate his or her understanding of the subject matter through assessments.

Government institutions will find the course valuable when introducing and training new civil servants, while academic institutions can use it as an aid for professors or instructors who teach subjects related to international trade and customs administration.



The CRT designed automated risk management systems that enabled customs authorities in CAFTA-DR countries to target their resources toward inspections of high-risk transactions, while simplifying the release and movement of low-risk shipments

## CHAPTER THREE

# HOW DID CRT HELP TO IMPROVE CUSTOMS OPERATIONS?

Reduced to its most basic level, international trade is the cross-border exchange of goods or services. This is why a free trade agreement requires efficient and effective customs administrations. These offices are responsible for ensuring that the shipments crossing the borders of each country are legitimate and handled expeditiously; that applicable tariffs are paid in a timely manner; and that, in the worst case scenario, narcotics, illegal weapons, and contraband are prevented from entering the countries.

For this reason, Chapter 5 of CAFTA-DR is devoted exclusively to Customs Administration and Trade Facilitation (see box at next page).

The articles of Chapter 5 directly or indirectly address the efficient and expeditious clearance and movement of goods. CRT

therefore focused on promoting compliance with their obligations. In particular, it sought to improve customs procedures through effective and efficient risk management. In keeping with best customs practices, physical inspection is reserved for high-risk shipments, while low-risk shipments are moved through quickly and without physical inspection.

### **Improving automated risk management systems**

With the exception of Costa Rica and El Salvador, which conducted physical inspections of 12.6 percent and 8 percent of all shipments respectively prior to the CRT program, inspection rates in other countries were well over what is considered best international practices. The Dominican Republic was conducting physical inspections of 76 percent of all shipments,

## SUMMARY OF THE MAIN ARTICLES OF CAFTA-DR CHAPTER 5

5.2.1 Each party shall adopt or maintain simplified customs procedures for the efficient release of goods in order to facilitate trade between the parties.

5.2.2 Each party shall maintain procedures that (a) provide for the release of goods within a period no greater than that required to ensure compliance with its customs laws and, to the extent possible, within 48 hours of arrival.

5.3 Each party's customs authority shall endeavor to use information technology that expedites procedures for the release of goods.

5.4 Each party shall endeavor to adopt or maintain risk management systems that enable its customs authority to focus its inspection activities on high-risk goods and that simplify the clearance and movement of low-risk goods, while respecting the confidential nature of the information it obtains through such activities.

5.7 Each party shall adopt or maintain expedited customs procedures for express shipments while maintaining appropriate customs control and selection. These procedures shall: (e) under normal circumstances, provide for clearance of express shipments within six hours after submission of the necessary customs documents, provided the shipment has arrived.

5.10 Each party, through its customs authority or other competent authority, shall issue, before a good is imported into its territory, a written advance ruling at the written request of an importer in its territory, or an exporter or producer in the territory of another party.

while Honduras and Guatemala were inspecting more than 35 percent, and Nicaragua approximately 16 percent. Moreover, risk management systems were mainly based on fixed rules, which meant that less than 15 percent of inspections were actually effective.

In this context, CRT identified the need to continue building capacity in risk management units to enable them to develop

their own risk matrixes and generate dynamic probabilistic models that would safely reduce the number of inspections.

CRT designed, developed, and implemented a series of complementary computerized modules to improve risk management systems in the customs offices of El Salvador, Guatemala, Honduras, and Nicaragua (see box 3). This was done in close collaboration with SIECA, which, with



**“The main advantage that we have obtained by using the risk management system is eliminating discretionality, by letting an IT tool based on committee-approved criteria decide which custom declarations will be subject to immediate verification.”**

**CHRISTIAN GIRÓN,  
CHIEF OF THE  
INTELLIGENCE  
DEPARTMENT OF THE  
SAT OF GUATEMALA.**

## **SUCCESSFUL PILOT PHASE OF THE RISK MANAGEMENT SYSTEM IN GUATEMALAN CUSTOMS**

A pilot phase conducted in the Customs Superintendency of Guatemala (SAT) demonstrated the efficiency and effectiveness of the risk management system promoted by CRT. During the pilot, Guatemalan customs officials obtained 15 different risk profiles, which are having a positive impact on detection during cargo inspections. The development and implementation of the pilot phase involved the development of new rules of selectivity (obtained from the Risk Model) and a review of existing rules.

“It all revolves around an electronic application that includes the three stages recommended by the World Customs Organization: fixed rules, history and random sampling,” explained Christian Girón, Chief of the SAT’s Customs Intelligence Department. “A committee of officers from different tax administration divisions authorizes any decision modifying the fixed rules, random sampling, and immediate verification rates to be applied,” the Guatemalan official added.

Since it began using this system, the SAT has collected revenues and ensured compliance with customs laws, without detriment to trade facilitation for operators and products that comply with CAFTA-DR regulations. Prior to implementing the current risk management module, the SAT reviewed 60 to 65 percent of declarations, resulting in a detection rate of between 9 and 11 percent. Currently inspections hover around 30 percent, with a 7 to 8 percent detection rate.

According to the chief of Customs Intelligence, “we have reduced inspections probably by 50%, while maintaining detection levels... The main advantage to us of using the risk management system is that it eliminates discretionality and allows a computerized system based on criteria approved by a committee to decide which customs declarations will be subject to immediate verification”.

USAID support, designed and implemented basic risk management systems in Honduras and Nicaragua.

These enhanced systems contribute to more effective detection

and control of customs crimes through the efficient identification of high-risk operations. At the same time, customs administration offices are able to reduce the percentage of customs declarations subject to

## BOX 3

# Effective and efficient risk management systems

CRT worked on the design and implementation of automated risk management systems that enable customs authorities in CAFTA-DR countries to target their resources toward inspections of high-risk transactions, while simplifying the release and movement of low-risk shipments. It also made sure that the risk systems adopted would be sustainable by equipping risk management units with the technical and methodological capacity they needed to efficiently and systematically identify high-risk operations and factors that occur in foreign trade.

### WHAT ARE THE SYSTEM'S COMPONENTS?

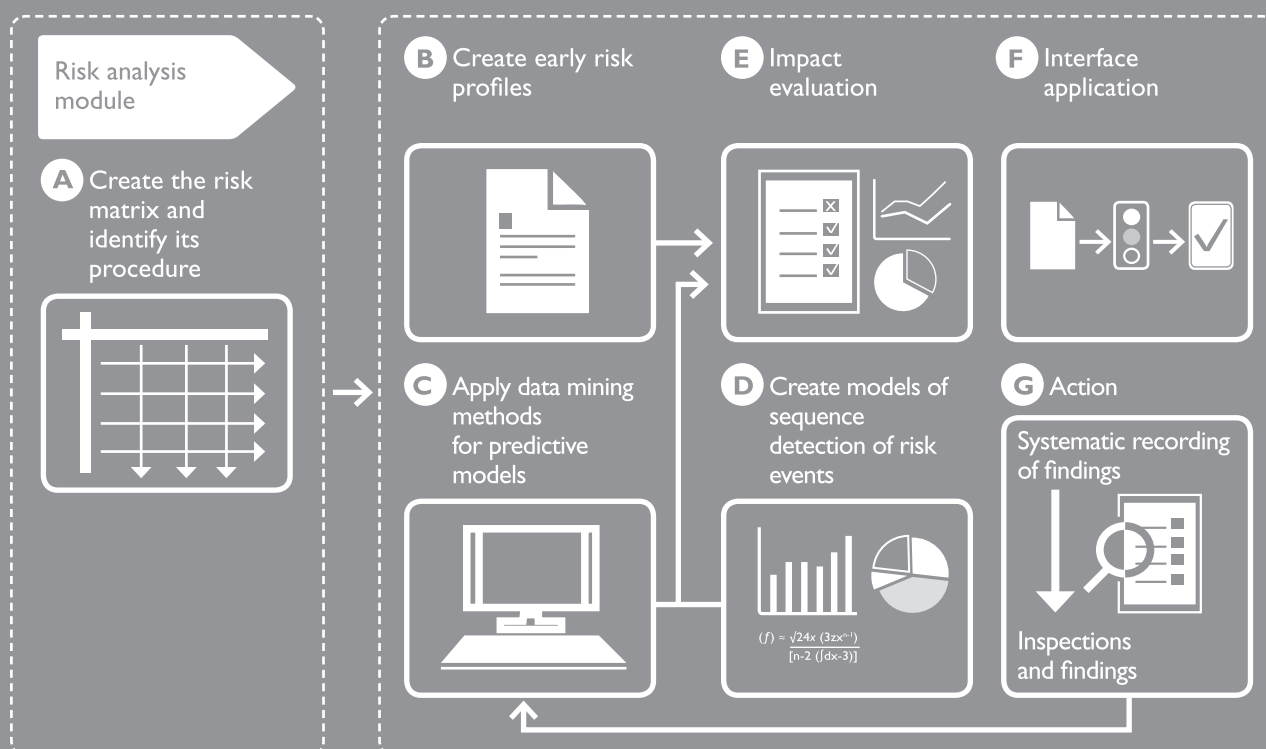
The risk administration system comprises several coordinated and complementary operational modules for dynamic probabilistic analysis. It uses efficient computerized tools to identify and evaluate high-risk customs transactions or shipments. In addition, the system automatically generates risk indicators, profiles, and patterns by processing current and historical data on customs operations and by applying information technology, statistical methods, and data mining techniques to information generated by operational customs systems, customs offices, and other sources such as domestic tax administrators and port authorities. The system generates periodic risk profiles and patterns that serve as a tool to identify shipments presenting a high risk of noncompliance with foreign trade law.

The risk system modules are as follows

- **Risk matrix.** This is a tool to identify, quantify, and determine how to handle operational and strategic risks affecting the mission of the customs service. It helps counteract the intuitive tendency of customs offices to increase inspections of goods.
- **Early profiling module, sequence of events module, and predictive model generation module.** These modules are designed to identify and detect high-risk customs operations.
- **Impact evaluation module.** This is used to perform an evaluation prior to applying possible scenarios and to conduct a combined evaluation of the results obtained from the three previously described modules.
- **Detection registration module.** This module creates an historical statistical record of the results and discoveries made during inspections conducted by customs offices, laboratories, technical departments and regulatory agencies, among other sources. This register provides a more comprehensive vision of the behavior of a particular commercial operator and facilitates follow up on each activated risk profile and criterion. It will also make it possible to automatically identify and generate new profiles.

**FIGURE 2. COMPONENTS OF THE RISK MANAGEMENT SYSTEM**

SELECTIVE MODULE  
Customs system



**TOP:** Although the application of the risk management modules is very recent, its impact on the indicators of efficiency and effectiveness in custom operations is already evident.

physical inspections. This leads to more effective customs services and contributes to foreign trade facilitation, while reducing transaction costs for users.

The impact that these modules are already having is evident in indicators of the efficiency and effectiveness of customs operations in those countries. As we showed earlier, in Guatemala, for example, the number of physical inspections was reduced from 65 to 30 percent of total shipments while the effectiveness of these inspections was improved from 7 to 9 percent. The results in El Salvador are even more significant. The inspections have been reduced from 25 percent of all

shipments to approximately 6 percent, while their effectiveness increased from 4 to more than 10 percent.

### Strengthening risk units

CRT worked with the management of customs offices in CAFTA-DR countries to strengthen the organic structure of their risk management units and ensure that they have in place the right staff and technical tools to perform their duties efficiently.

Based on the premise that the goal was intelligent analysis of foreign trade operators in the import and export of goods,

## ESTABLISHING PUBLIC-PRIVATE DISCUSSION FORUMS IN THE DOMINICAN REPUBLIC

One of CRT's successes was in helping the General Customs Administration of the Dominican Republic (DGA-RD) set up regulatory and information technology committees comprised of customs officials and private sector representatives. These committees facilitated communication between the authorities and the private sector. They discussed changes to customs regulations and computerized systems and procedures, raised other issues, and provided a forum for the authorities to report on the status of future projects. These committees also channeled feedback from customs services users to the DGA-RD, so that it could implement solutions to facilitate trade and operations.

"The success of these committees is a clear example of the potential of public-private collaboration in achieving progress in the short and long terms. New and very promising channels of communication have been opened up thanks to the institutional will displayed by the DGA and the interest shown by committee members," remarked Raúl E. Rodríguez, executive director of the Dominican Association of Exporters, Inc. (ADOEXPO)

CRT initially worked with risk management units in the application of analytical and risk management methods based on profiles and criteria.

These methodologies were used to define the duties and responsibilities of risk unit staff when dealing with shipments that have been assigned a particular risk level: this involves a common understanding of when high-risk shipments are present, the proper response when risks are detected, the typification of risks, and the elimination of much of the discretionality in decision-making.

CRT then offered ongoing and extensive theoretical and on-the-

job training on risk management to help improve the operational performance of risk units. It developed a training program in applied statistics for the analysis and interpretation of predictive models in risk analysis. The training program took into account that modern risk management approaches largely depend on the proper use of statistical methods to analyze information and identify variables that correlate with noncompliance with customs regulations and on the development of probabilistic models to determine the risk level of individual shipments. The objective was to help deepen and improve the theoretical and practical know-how of risk unit staff.



CAFTA-DR requires effective and efficient customs. CRT helped customs in the region improve their processes through an effective risk management system.

The risk management units aim for an intelligent analysis of international trade operator.



To complement this effort, CRT trained and supported the units in the adoption of advanced data mining methodologies and the development of customs risk indicators for automated detection of risk patterns and evaluation of their respective impact on customs activities.

### Improving customs procedures and processes

In recent years, the region's customs offices have been reformed and modernized through the implementation of new electronic customs systems such as SAQB'E in Guatemala, SIGA in the Dominican Republic, Si-

dunea World in Nicaragua, and SARA in Honduras.

The use of these technological tools improves efficiency in customs administration and facilitates trade. They must be implemented, however, in conjunction with new customs procedures and processes.

### Developing customs manuals to promote transparency

CRT developed customs manuals for Honduras, Nicaragua, Guatemala, and Costa Rica. These manuals provide complete information on customs proce-

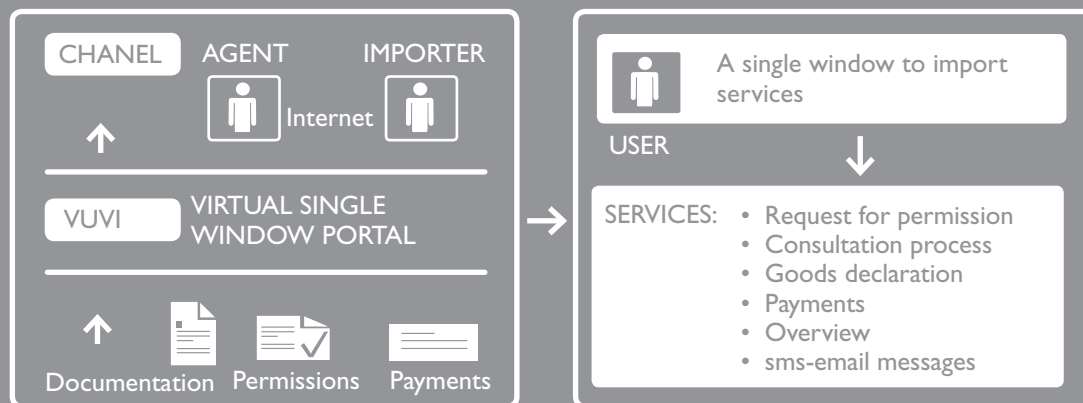
## BOX 4

# The VUVI: Reducing import clearance times in El Salvador and Nicaragua

### WHAT IS THE VUVI?

The VUVI is a single web portal containing all of the procedures that interested parties must complete in order to import goods requiring permits from other institutions. This tool centralizes and streamlines the import procedures and permits required by government agencies responsible for the control of goods for health, environmental, security, or other reasons. It electronically incorporates the various procedures into the customs information systems. The VUVI is an agile and effective tool that offers a range of services designed to facilitate foreign trade operations.

### HOW DOES THE VUVI WORK?



### WHAT ARE THE ADVANTAGES OF THE VUVI?

- Centralized procedures that eliminate the need for interested parties to physically visit each different office to request import permits for controlled goods.
- Elimination of paper documents, which is time- and cost-saving.
- Enhanced transparency due to the availability of accurate, timely information on import requirements.
- Elimination of discretionality, such as demanding permits for goods when none is required.
- Reduction in fraud through the use of counterfeit paper documents.
- Enhanced compliance with the obligations of international trade operators.
- The VUVI is integrated into the customs system.



## IMPROVING THE TRANSPARENCY OF CUSTOMS PROCEDURES IN HONDURAS

CRT supported the Executive Revenues Office of the General Customs Administration (DEI-DGA) to develop an automated system to publish the status of customs declarations and conduct online searches in real time. This system has significantly enhanced transparency in customs procedures.

dures for the import and export of goods, the legal and regulatory framework, the application of free trade agreements, and rules of origin. These user-friendly manuals, which are available in electronic formats and hard copies, are valuable instruments for the international trade community.

### **Virtual Single Window for Imports (VUVI)**

To reduce clearance times for definitive imports, CRT worked

on the design of an automated system to issue import permits for goods subject to control. The VUVI is an Internet resource that interested parties can use to complete the procedures and payments necessary to import goods subject to controls by other government institutions. The system was designed for El Salvador and later replicated in Nicaragua. A description of the VUVI is in box 4.



The CRT made significant progress in the adoption of international trade facilitation conventions and in improving trade capacity.

## CHAPTER FOUR

# HOW DID CRT CONTRIBUTE TO TRADE CAPACITY BUILDING AND THE ADOPTION OF INTERNATIONAL TRADE FACILITATION CONVENTIONS?

When the CAFTA-DR countries signed the free trade agreement, they recognized the importance of capacity building in customs administration and trade facilitation. This is set out in Chapter 19 of the treaty, which provides for the creation of the Committee on Trade Capacity-Building (TCB), and in Chapter 5, Article 5.12, which provides that the TCB's capacity-building priorities should be related to implementation of that chapter.

In this context, CRT focused on identifying at least one priority activity for each country and each year within the framework of their national action plans for trade capacity building. Moreover, the program also considered the priorities of the counterparts, namely the countries' representatives on the TCB. The main achievements made in each country are summarized below.

### **Institution building in the Dominican Republic's Office of Foreign Trade (DICOEX)**

CRT helped strengthen foreign trade management within the DICOEX, by establishing the roles and duties necessary for implementation and administration of trade agreements, including CAFTA-DR. Subsequently, CRT assisted in the design and adoption of a quality management system pursuant to ISO standard 9001:2000. With the help of CRT, and after an adaptation and systematization period, DICOEX was granted accreditation under this international quality standard.

### **Improving the payment platform of the government of El Salvador (P@GOES)**

CRT assisted with institutional modernization and the construction of e-government in El Salvador by improving and expanding the electronic payments platform P@GOES.

Working with the Technical Secretariat of the Office of the Presidency, CRT expanded the coverage of P@GOES to the General Customs Administration, the Ministry of Public Health and Social Assistance, and the National Registration Center, so that they would be

The improvement of the electronic payment platform P@GOES, supported by CRT, increased competitiveness in El Salvador by reducing transaction costs and making government processes more transparent and efficient.



## CAPACITY STRENGTHENED IN THE DOMINICAN REPUBLIC

“Today, this office is equipped with efficient procedures to respond to requests for information and consultations from our clients and collaborators.

In order to follow up on this commitment to quality, we have established a system of regular surveys to elicit information on domestic and foreign client satisfaction along with a suggestion box that provides forms for the same purpose.

At present, the various areas of DICOEX are organized into processes and subprocesses which are duly documented and reviewed periodically through internal audits to trigger continuous improvements.

We also have an annual work plan, which enables us to schedule and measure the activities to be carried out during a particular time frame and target resources in order to accomplish the established goals.

We also have an annual staff training program, which serves as an incentive and a recognition of DICOEX's professional staff.”

— YAHAIRA SOSA,  
FOREIGN TRADE DIRECTOR OF THE MINISTRY OF  
INDUSTRY AND COMMERCE OF THE  
DOMINICAN REPUBLIC.

able to offer an electronic payment option. Three new financial institutions were also added to the system. An enhanced and expanded P@GOES helped make government processes more efficient and bolstered the country's competitiveness through savings in transaction costs and enhanced operational transparency.

### Capacity building in areas relevant to CAFTA-DR

Throughout the program period, CRT conducted extensive training on priority topics relevant to compliance with CAFTA-DR:

- The program conducted compliance with intellectual property rights set out in Chapter 15 of the treaty, including the legal provisions and procedures governing brands, patents, geographic indications, Internet domain names, copyright, protection of satellite signals, and regulated products. Civil servants, judicial officials, and private sector representatives from El Salvador, Honduras, and Guatemala received training on these issues.
- CRT built public and private sector capacity in origin issues in each country to ensure proper regulatory application



**CRT contributed to strengthening international trade management by some of the institutions of the signing countries.**



and promote optimum use of the opportunities available to the textile and apparel sector under Chapter 3 of CAFTA-DR. The program was complemented with verification procedures to handle inspections by U.S. customs authorities.

- In Costa Rica, the program strengthened implementation and fulfillment of the investment commitments set out in Chapter 10 and the repercussions of noncompliance. This is important to avoid lawsuits against the Costa Rican State under this chapter. CRT designed a training program to strengthen the Ministry of Foreign Trade, court judges, the Judicial School and the Constitutional Court, other relevant government agencies involved in the application of investment regulations, and those municipalities most heavily involved in foreign investment.

### **Support for the TCB**

CRT provided support for the thematic, administrative, and logistical preparations for the TCB's annual meetings. In addition, the project worked with other U.S. agencies of and with multilateral entities to map out all of the assistance programs sponsored by the U.S. Government and international donors, in the context of the national action plans for trade capacity-building.

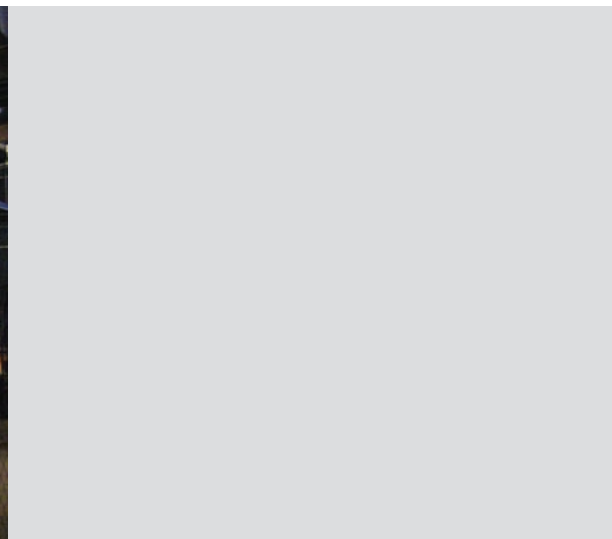
### **HOW DID CRT CONTRIBUTE TO THE ADOPTION OF INTERNATIONAL TRADE FACILITATION CONVENTIONS?**

Through an active effort in conjunction with the public and private sectors in the countries in the region, CRT made significant progress in the adoption of three



international trade facilitation conventions and agreements:

- The Inter-American Convention on the Legal Regime of Powers of Attorney to be Used Abroad. This instrument provides that valid powers of attorney issued by one of the states parties to the convention shall be valid in any of the states party. The law of the place where the power of attorney was issued governs the formalities associated with its use abroad.
- The Inter-American Rules on Electronic Documents and Signatures (IAREDS). This instrument creates a uniform basis for the recognition and use of electronic signatures and documents, and promotes the growth of electronic trade by establishing rules that can be adapted to changing technologies and new business models.
- The Hague Convention Abolishing the Requirement of



The CRT helped to improve the efficiency and effectiveness of customs procedures.



CRT contributed to strengthening trade capacity in the CAFTA-DR region.



Legalization for Foreign Public Documents (Apostille Convention). This specifies the ways in which a document issued by one signatory country may be certified for legal purposes in all of the signatory countries. The Apostille is an international certification similar to notarization that is frequently added to documents that have been signed by a notary public, attorney, or other public servant such as the clerk of a court of registers acting in an official capacity.

The signing and ratification of these international agreements will facilitate international trade and foreign investment in the CAFTA-DR region insofar as they eliminate or streamline bureaucratic procedures in commercial transactions and import and export operations, which have increased significantly in volume as a result of this treaty. It is, however, each country's

exclusive prerogative to decide whether or not to adopt them.

CRT promoted the dissemination and more awareness of the benefits of these conventions and agreements and assisted some countries in drafting legislation that fulfills the same purpose. The main achievements in this area are described below.

#### **Adoption of the Apostille Convention in the Dominican Republic**

The Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents entered into force in the Dominican Republic on August 30, 2009, after the relevant legislation was ratified by the Congress and signed by President Leonel Fernández. CRT was instrumental in publicizing the benefits of Apostille in the Chamber of Commerce and the

American Chamber of Commerce, building consensus, and urging the Dominican Congress to take it under consideration.

### **Preparation of draft legislation on electronic documents and signatures in El Salvador and Honduras**

Electronic contracts are increasingly common and mobilize copious quantities of goods and services within and outside of the Central American economy. Given the frequency of this type of business, its supranational nature, and the different legal commitments associated with the jurisdictions involved, a regulatory framework is needed to govern these exchanges and give them legal force and effect.

None of the CAFTA-DR countries has signed or ratified the IAREDS (table 3). However, legal security in this field is a value that can be achieved through legal means, as evidenced by the experience of nations such as Costa Rica, the Dominican Republic, and Guatemala, which have adopted the relevant regulations at the domestic level.

Therefore, in 2007, CRT undertook an intensive effort to help El Salvador, Honduras, and Nicaragua enact modern legislation on electronic signatures and documents in keeping with international standards. This will contribute to reliable and safe transactions conducted with all due fiscal and customs transparency, which can be ensured through the use of advanced communications and informa-

tion technology. CRT's effort included:

- In El Salvador, working with the Technical Secretariat of the Office of the Presidency to develop a new electronic documents and signatures law. The draft legislation was disseminated among public and private stakeholders in an effort to build consensus and it is hoped that it will be taken up by the legislature.
- In Honduras, working with the Honduran Private Enterprise Council (COHEP) to develop and disseminate draft legislation on electronic documents and signatures. The program guided the process of gathering input and promoting review of the legal text in order to adapt the language as necessary to ensure its consistency with Honduran law.

Since electronic trading will only gather momentum to the extent that citizens feel that their transactions feature acceptable levels of confidentiality, integrity, and legal certainty, the emphasis placed on the core principles of regulation in the draft legislation—as set out in instruments such as IAREDS in the OAS and the Model Law of the United Nations Commission on International Trade Law (UNCITRAL)—have become beacons in the field of electronic signatures.

The model legislation was drafted, edited, and tailored to the legal reality of each country with the assistance of experts in the technology and legal fields drawn from academia and the public and private sectors. After reaching basic consensus with these experts

**TABLE 3. STATUS OF APPROVAL AND ENTRY INTO FORCE OF THE THREE INTERNATIONAL CONVENTIONS AND AGREEMENTS IN CAFTA-DR COUNTRIES AS OF JUNE 2010**

Country	Hague Convention of 1965 (Apostille)	Inter-American Convention on the Legal Regime of Powers of Attorney to be Used Abroad	Inter-American Rules on Electronic Documents and Signatures (IAREDS)
<b>Costa Rica</b>	The Convention's text is under consideration in the Legislative Assembly.	<ul style="list-style-type: none"> <li>Signed: January 1, 1975.</li> <li>Entry into force: February 1, 1978.</li> </ul>	Law of Certificates, Digital Signatures and Electronic Documents (Law No. 8454).
<b>El Salvador</b>	<ul style="list-style-type: none"> <li>Signed: September 14, 1995.</li> <li>Entry into force: May 31, 1996</li> </ul>	<ul style="list-style-type: none"> <li>Signed: January 30, 1975.</li> <li>Entry into force: June 27, 1980.</li> </ul>	Bill on electronic documents and signatures is ready to be taken up by the Legislative Assembly.
<b>Guatemala</b>	Not signed.	<ul style="list-style-type: none"> <li>Signed: January 30, 1975.</li> <li>Entry into force: March 22, 1979.</li> </ul>	Law for the Recognition of Electronic Communications and Signatures (Decree 47-2008).
<b>Honduras</b>	<ul style="list-style-type: none"> <li>Signed: January 20, 2004.</li> <li>Entry into force: September 30, 2004.</li> </ul>	<ul style="list-style-type: none"> <li>Signed: January 30, 1975.</li> <li>Entry into force: January 8, 1979.</li> </ul>	Draft legislation on electronic documents and signatures is ready to be taken up by the Legislative Assembly.
<b>Nicaragua</b>	Not signed.	<ul style="list-style-type: none"> <li>Signed: January 30, 1975.</li> <li>Not yet entered into force.</li> </ul>	Draft legislation on Electronic Documents and Signatures is under consideration in the Legislative Assembly.
<b>Dominican Republic</b>	<ul style="list-style-type: none"> <li>Signed: September 30, 2008.</li> <li>Entry into force: August 30, 2009.</li> </ul>	<ul style="list-style-type: none"> <li>Signed: November 17, 1976.</li> <li>Entry into force: October 6, 1977.</li> </ul>	Law on Electronic Trade and Digital Signatures (Law 126-02).

Source: Authors' calculations based on consolidated log file training to CAFTA-DR countries by the CRT.

on the content of these bills, subsequent work has been done to continue to improve them.

The legal and technical feedback obtained from national counterparts ensures that progress can be made in two important areas, if such legislation were to be enacted:

- Electronic communications and electronic trade in particular, by equipping consumers with tools to achieve the desired security in transactions through the use of the electronic signature.
- Electronic government, by facilitating the use of the electronic signature for civil servants in various administrative proceed-

ings and creating new communications channels between public administration and citizens.

In addition to assisting with the development of the draft legislation, CRT participated in a Guatemalan legal forum to discuss the bill on signatures that has since become law in that country. The program also discussed the Nicaraguan bill with different public and private stakeholders and, as mentioned, worked with El Salvador and Honduras on the process to draft and debate their bills.

A valuable seed has been planted in these countries and, sooner or later, it will germinate with the



enactment of mature legislation containing the best international standards. This is the springboard for the development of electronic trade and for a more democratic and transparent relationship between citizens and their governments.

The purpose of promoting this type of legislation in the field of

communications and information technologies is to turn this field into factors of economic and social development that help bridge the digital divide, encourage creativity and the development of businesses targeting other markets, and carry the productivity of Central American countries to new heights of quality and efficiency.



The CRT Program produced custom guides that facilitated the understanding of custom procedures by importers and exporters.



CRT helped to improve custom management through the implementation of efficient processes and custom-release procedures.



## CHAPTER FIVE

# WHAT WORKED AND WHAT DID NOT? WHAT WERE THE LESSONS LEARNED

The implementation of the CRT program was a challenging undertaking from the standpoint of management and technical implementation due to its regional character and complex organizational structure. Divided into three technical areas, the program had a geographical coverage of six countries and operated with mostly part-time staff. This level of complexity inevitably produced a lot of headaches. At the same time, however, it provided an opportunity to learn valuable lessons that contributed to success.

### **CLOSE COORDINATION AND ONGOING DIALOGUE WITH MULTIPLE COUNTERPARTS AT ALL LEVELS**

The direction and implementation of the actions involved in a program such as CRT posed myriad challenges given its regional nature. Throughout the program period, the team worked with national and regional counterparts ranging from the customs and foreign trade offices in each of the six

nations to regional entities such as SIECA and the bilateral USAID missions in each country.

With all of these different rhythms, visions, points of departure, and networks, the key to CRT's success lied in its constant efforts to build relationships with its counterparts. This entailed ongoing dialogue and coordination of activities through country coordinators, technical leadership and program management, and keeping the respective USAID mission informed at all times. This approach made it possible to react quickly to changing priorities, obtain constructive feedback, and make the necessary adjustments to maximize impact.

*Ensure the support and commitment of counterparts by jointly identifying areas for collaboration and by designing specific work plans for each country.* CRT recognized the importance of optimizing the impact of activities and ensuring the commitment of its counterparts by systematically identifying their needs and priorities and aligning them with the program's objectives and anticipated results.

To this end, the program worked with USAID to develop a methodology to identify potential areas for improvement in the implementation of the requirements set out in Chapters 4 and 5 of CAFTA-DR. This tool, which we called the "Semáforo de Oportunidades, or SO (Opportunities Traffic Light), helped us identify and

target technical assistance and training needs in areas where each country still had room to improve customs administration and the implementation of rules and procedures of origin. It also helped to develop specific work plans for each country together with our counterparts. These work plans proved critical to the implementation of the CRT program.

*Maximize program impact through activities tailored to the needs of our counterparts that generate quality products with a view toward regional harmonization.* The SO analysis revealed variations in the progress each country had made toward compliance with treaty obligations, and it identified the specific products each one required in order to implement Chapters 4 and 5. CRT's interventions, therefore, tailored activities and products to the reality of each country, while fostering regional harmonization and developing instruments such as GEDOEL and the Virtual Course on Rules of Origin that could be applied at the regional level. Ongoing coordination of activities with SIECA was a crucial aspect of this strategy.

*Secure a political commitment.* Another important challenge was to secure the political commitment and support of our counterparts, independently of any political changes that might occur. An example of this is the implementation of the Virtual Single Window for Imports, or VUVI, in El Salvador. The system, which had already been developed and tested success-



Since its inception, CRT has assisted the CAFTA-DR region on trade facilitation and customs administration.



fully on DGA-ES servers, was ready to be launched. The only remaining task was to finalize and publish a products catalog. At the end of the testing phase, however, a changeover in the Salvadoran government and the attendant shifts at the executive and technical levels of the DGA ultimately prevented its launching. This experience left behind a very important lesson: before committing program resources, countries must be required to make a political commitment to support project implementation all the way through, so as to ensure its continuity and sustainability regardless of any political changes that might occur.

*Build partnerships: the multiplier effect.* Another lesson learned has to do with recognizing the advantages of building

partnerships with government institutions and private sector associations. The project was able to fulfill its objectives over the past few years by including government and private sector representatives as cosponsors of several of its events. Examples of this included the public launching of GEDOEL, seminars on verification of origin, and the workshop on rules of origin for judges and prosecutors. Public and private institutions provided logistical support and mobilized their convening power to ensure the broad participation of stakeholders in a particular area. They also helped obtain media coverage for the events.

*Different paces in the adoption of program recommendations.* The countries of the Central American region and the Dominican

Republic move at different paces, depending on their visions, policies, and needs. The process of adopting the recommendations or implementing the measures, proposed by CRT and accepted by customs offices, has frequently moved slowly. Our country coordinators played a very important role in addressing this situation by following up on the commitments made and working with our counterparts on their implementation.

*It is difficult to measure impacts without data.* . Data on customs performance are sensitive and difficult to generate. Throughout the project period, CRT had difficulty obtaining data from its counterparts on indicators that could be used to measure the impact of improvements associated with program activities under Chapters 4 and 5 of CAFTA-DR. It was particularly diffi-

cult to obtain data for indicators directly related to the effectiveness and efficiency of customs administration (e.g., percentages of physical inspections resulting from the application of risk criteria, percentages of effectiveness of physical inspections of goods and verifications of origin, and so forth).

In response to this problem, in its final phase, CRT proposed to assist customs offices in developing monitoring and evaluation systems with objective, measurable indicators that could be used to conduct timely evaluations of progress in key operational areas or conversely. In this way, areas for improvement and corrective measures could be identified. The customs offices of El Salvador, Honduras, Guatemala, and Nicaragua agreed to this initiative and now have those systems in place.





The signing of **CAFTA-DR** set the path for the region to take steps to accelerate economic growth through international trade. It is important to recognize that these tasks have not ended and to continue confronting the challenges that come with an ever-changing international stage.



## CHAPTER SIX

# WHAT SHOULD BE DONE IN THE FUTURE?

Over its nearly four-year implementation period, the CRT program achieved significant victories by providing assistance to Central American countries and the Dominican Republic in the areas of compliance with the commitments set out in Chapters 4 and 5 of CAFTA-DR and trade facilitation. Because globalization and international trade are dynamic processes that are in constant flux, the countries will continue to face many challenges.

To maintain and build on the accomplishments already made, it is important to acknowledge that the task does not end with the project. To the contrary, the challenges are greater than ever before. Each country will have to move forward regardless of the assistance received, and they must therefore set their sights on ways to continue to make progress. To this end, we offer the recommendations below:

### **Follow-up on a plan for ongoing monitoring**

Evaluation is a cornerstone of any endeavor. Customs authorities need tools that elicit reliable and timely information in order to monitor the progress that is being made. Operations monitoring includes customs clearance times for goods, the effectiveness of risk management, the effectiveness of *a posteriori* verification, and other benchmarks. While CRT developed a program with these objectives in mind, it will fall to the customs administrations to apply the tool and to conduct the necessary follow-up, as well as to take timely corrective action.

### **Institution building in customs administration**

One of the most important aspects of institution building—and one that helps improve

CRT focused its efforts on the improvement of customs administration in the countries of the CAFTA-DR region, through capacity building of customs officials and the integration of the different sectors that form the logistics network.



customer service—is training for customs officials. Such initiatives are diluted, however, by the high staff turnover rates in many countries in the region. The countries should therefore focus on ways of reducing staff turnover in customs administrations, given the exceedingly technical role of these civil servants. In this sense, the countries should adopt policies, make decisions, and develop the legal instruments necessary to build solid institutions that are sustainable over time and less vulnerable to politicization.

#### **Ongoing training for civil servants**

The program designed a series of technical assistance events to improve and strengthen the capacity of customs officials responsible for applying and enforcing customs laws and regulations. Customs administrations must continue to

offer systematic training programs—particularly in technical areas that are more susceptible to change—in order to provide quality services and foster compliance with customs law.

#### **Integrity of customs officials**

One of the most important factors in achieving the objectives of any modern customs administration is the probity of its officials. Customs offices must therefore be equipped with legal and institutional instruments to punish officials who fail to uphold the law and to reward customs officials who carry out the law efficiently and transparently by ensuring their welfare and sustainability. Resource allocations must be such that they encourage the commitment of officials to the institution they represent and spotlight the important role these civil servants

play in society. This is achieved through public and private recognition, but also by making available financial resources and incentives that render them less susceptible to corrupt acts.

### **Integration and team work with the private sector**

Good communication and the integration of all stakeholders along the logistical chain are a critical part of ensuring that customs offices obtain satisfactory results. While the governments of many countries maintain good relations with the private sector, better coordination and integration is needed for the development of strategic plans and to foster cooperation in reaching the objectives. Better coordination and integration also helps to ensure that foreign trade operators are open to the projects implemented by customs offices and become important partners in modernization efforts.

### **Contribute to an effective Central American integration process**

The countries of Central America have been working toward

integration for 50 years now and it is a source of great satisfaction for us to know that we have contributed to strengthening these efforts. Yet we must also regard this as a challenge: while significant progress has been made over the years, it has not been sufficient to achieve the sort of genuine integration that enables countries to face challenges as a bloc rather than as individual nations.

Integration is still a matter of unfinished business in the region. Governments and other authorities must dedicate their best efforts to consolidating this goal, which will contribute enormously to regional development. To give a typical example, the region's customs services spend an enormous amount of money on information systems, since they each use a different system. They could reduce costs and generate incalculable benefits by adopting a unified customs system. Future projects should prioritize support for this initiative.





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**USAID REGIONAL TRADE PROGRAM  
FOR CAFTA-DR**

PROGRAMA REGIONAL DE USAID  
DE COMERCIO PARA CAFTA-DR

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